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SUBJECT: UPDATE ON IRAQ STATE OWNED ENTERPRISE JOINT VENTURE
PROGRESS

REF: A. 09 BAGHDAD 0152
[1](#)B. 08 BAGHDAD 3924

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[1](#)1. (SBU) SUMMARY: The Iraqi Ministry of Industry and Minerals (MIM) has completed two tender rounds for joint venture (JV) arrangements between MIM and private investors in its state owned enterprises (SOE). While progress has been slow, SOE investment commitments from investors from Japan, Germany, Romania, Egypt and the U.S. now total over 800 Million USD (Reftel A). END SUMMARY

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[1](#)2. (SBU) In a recent meeting with Fawzi Hariri, Minister of Industry and Minerals, (Reftel A) the Minister was generally upbeat on the overall progress, noting continued international investor interest. This progress and continued interest is noteworthy given MIM's structuring of the JVs, in which the GOI maintains ownership of the SOE, while the international investors take over management and operations in order to share in a negotiated percentage of SOE output.

Working closely with MIM, DOD's Task Force for Business Stability Operations (TFBSO) has also served as the critical link between GOI offerings for JV projects and the private investor community. TFBSO has provided consulting, training, and in some cases, factory refurbishment in preparation for production. The GOI requirements that payroll levels be maintained has proved a significant barrier to investor interest, but the GOI continues to believe this is a necessary step to prevent exacerbating the unemployment problem and possibly triggering civil unrest. (Reftel B)

Current Status of Investments

[1](#)3. (U) JVs have been signed and executed for the following SOE investments:

- Cement Plant, Kirkuk. 150 Million USD, German/Iraqi consortium, 15 year term, consortium to receive < 65% of production, must maintain payroll at current level and provide power generation for plants.

- Al Qa'im Cement, Anbar. 150 Million USD, Romanian/Iraqi consortium, 15 year term, consortium to receive < 65% of production, must maintain payroll at current level and provide power generation for plants.

[1](#)4. (U) SOE JVs approved by Council of Ministers (COM), awaiting contract signing:

- Diyala Electric, Diyala. 80 Million USD, Egyptian/Iraqi Consortium (Al Suwidi group), 15 year term, consortium to receive 85% of production, must maintain payroll at current level and provide power generation for plants.

- Beiji Fertilizer, Salah ad Din. 210 Million USD, Japanese/Iraqi Consortium (Marubeni group), 15 year term, consortium

to receive 61.5% of production, must maintain payroll at current level and provide power generation for plants.

- Falluja White Cement, Anbar. 25 Million USD, German/Iraqi Consortium (IM Consulting and Michael Peters), 15 years term, consortium to receive 78% of production, must maintain payroll at current level and provide power generation for plants.

15. (U) The following SOEs have JV agreements pending cabinet approval and contract signing:

- Kubaysa Cement, Anbar. 150 Million USD, German /Iraqi Consortium, 15 year term, consortium to receive < 65% of production, must maintain payroll at current level and provide power generation for plant.

- Sinjar Cement. 100 Million USD, Japanese/American/Iraqi Consortium, 15 year term, consortium to receive < 65% of production, must maintain payroll at current level and provide power generation for plant.

16. (SBU) The following notable SOE JV agreement is under negotiation:

- Steel Plant, Basra. 1 Billion USD, ArcelorMittal.
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(Agreement in near term at the level of financing previously discussed is unlikely, given decreasing global demand for steel and steel products and the overall global economic slowdown)

17. (SBU) COMMENT: Some sectors of the international investment community find that the SOE JV model does not fit their investment strategy, or more simply put, they do not want to go in to business

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with the GOI. Still, progress is measurable and interest from investors continues. While not an ideal market solution in the long term, the SOE JV program is a pragmatic step in the near term that addresses the political and security concerns stemming from a rapid rise in unemployment that would occur if SOEs were shut down or downsized. The embassy, together with TFBSO, will continue to work with both the GOI and potential investors to bring new capital and expertise to Iraqi firms and to prepare for eventual privatizations.

END COMMENT
CROCKER